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FISCAL IMPACT STATEMENT

LS 6468

BILL NUMBER: SB 171

NOTE PREPARED: Apr 9, 2007

BILL AMENDED: Apr 3, 2007

SUBJECT: Various Insurance Matters.

FIRST AUTHOR: Sen. Delph

FIRST SPONSOR: Rep. GiaQuinta

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *Various Insurance Matters:* This bill provides that the Department of Insurance (DOI) sets the amount charged for copies of medical records. It specifies requirements for assets in a segregated investment account for a funding agreement. The bill times preexisting condition provisions in an accident and sickness insurance policy from the effective date rather than the enrollment date. It amends various mandated benefit statutes defining "accident and sickness" policy to standardize the list of the types of policies that are not included in the use of the term. The bill also makes various other amendments concerning accident and sickness insurance policies, travel accident policies, short-term health policies, and long-term care insurance producer compensation.

Interim Study Committee: The bill establishes an interim study committee to create a definition of "health insurance" for purposes of the law concerning accident and sickness insurance and health maintenance organization contracts.

Insurance Education Scholarship: This bill establishes the Insurance Education Scholarship Fund. It annually appropriates money in the scholarship fund to the State Student Assistance Commission (SSACI).

Fee Increases: This bill deposits various insurance filing fees into the DOI Fund rather than the state General Fund. It increases the internal audit fee for domestic and foreign insurers and health maintenance organizations to \$1,000. It increases the internal audit fee of other entities from \$100 to \$250. It provides that, except in certain circumstances, each policy, rider, rule, rate, or endorsement filed with the state constitutes an individual filing for purposes of the \$35 product filing fee. It imposes a \$1,000 cap per filing per insurer for product filing fees. The bill also provides that insurance producer license renewal fees are due every two years rather than every four years.

Certificates Suitable for Framing: The bill authorizes the Commissioner to issue certificates suitable for framing to insurance producers.

Resident Surplus Lines Producers: The bill removes the requirement that resident surplus lines producers file a bond with the Commissioner.

Commercial Filings: This bill provides an exemption from certain filing requirements for certain insurance issued to a commercial policyholder. The bill requires filing of commercial property and casualty insurance forms for informational purposes. It requires an insurer that issues a commercial property or commercial casualty insurance policy form, endorsement, or rider for an unusual risk of a particular commercial policyholder to maintain and provide the documents at the request of the Commissioner.

Property and Casualty Policy Amendments: The bill requires an insurer to provide notice of changes to certain policies. It provides that a property insurance policy may not be issued, renewed, or delivered to any person in Indiana if the policy limits a policyholder's right to bring an action against an insurer to a period of less than two years from the date of loss.

Continuing Education: The bill decreases the number of hours of continuing education credit that must be completed for insurance producer license renewal.

Unauthorized Alien Insurers: The bill provides for the entry of an unauthorized alien insurance company to transact business in the U.S. through a U.S. branch that is granted a certificate of authority in Indiana to transact insurance business as if the U.S. branch were a domestic insurance company. The bill specifies requirements that a U.S. branch must meet to be granted and to obtain renewal of the certificate of authority.

Annuity Recommendations and Predatory Insurance Practices: This bill makes the law concerning annuity purchase or exchange recommendations made to senior consumers apply to all consumers. The bill provides that engaging in certain dishonest or predatory insurance practices in marketing or sales of insurance to members of the U.S. Armed Forces are unfair and deceptive acts and practices in insurance. It allows the Insurance Commissioner to adopt rules to define and protect members of the U.S. Armed Forces from dishonest or predatory insurance practices.

Office of Medicaid Policy and Planning (OMPP): The bill requires OMPP to establish, before June 1, 2008, a demonstration project for a health care management program to offer to Medicaid recipients in Marion County the opportunity to receive Medicaid services provided solely by the Health and Hospital Corporation of Marion County. It requires the Office and the Corporation to develop, before June 1, 2008, a pilot project to allow small employers that are unable to afford to offer health care coverage for their employees to obtain access to affordable health care coverage for their employees.

Effective Date: (Amended) Upon passage; July 1, 2007; January 1, 2008.

Explanation of State Expenditures: (Revised) *Insurance Education Scholarship:* The impact depends on the number of students studying insurance or business with an emphasis on insurance. SSACI's reported average amount for 4-year public college tuition and fees for FY 2007 is \$5,473 and is projected to be about \$5,800 for FY 2008. For each 100 students who are provided a scholarship of \$5,800, the cost would be about \$580,000. SSACI could also have some increase in administrative expenses that would be paid from the Insurance Education Scholarship Fund. The source of revenue for the fund is fees collected for the purchase of framed certificates.

(Revised) *DOI*. The bill authorizes the DOI Commissioner to issue certificates suitable for framing to insurance producers. This provision could increase administrative expenses for the DOI by an indeterminable amount. It is assumed that the DOI will be able to cover expenses given its existing level of resources. The Commissioner may impose and collect a reasonable fee for the certificate. Fees must be deposited into the Insurance Education Scholarship Fund.

Administrative expenses of the DOI would also be affected to the extent that the DOI would have to change rules and notify interested parties of the changes or clarifications. However, it is expected that the DOI would be able to cover any additional expenses given its current budget and resources.

(Revised) *Interim Study Committee*: The bill establishes the Health Insurance Interim Study Committee to define "health insurance". The committee must only study and make recommendations to the General Assembly concerning the manner in which accident and sickness insurance policies, self-insured plans, and HMO contracts that provide coverage for health care services are defined in the Indiana Code.

The committee consists of 4 members of the House of Representatives and 4 members of the Senate. The committee must operate under the policies governing study committees adopted by the Legislative Council. The committee must submit a final report to the Legislative Council not later than October 31, 2007. The committee expires December 31, 2007.

Past Legislative Council resolutions have provided that interim study committees are subject to an annual \$9,500 budget for a committee of 8 members. Per diem, mileage, and travel allowances are paid from state General Fund appropriations made to the Legislative Council or the Legislative Services Agency (LSA). LSA would provide administrative support.

(Revised) *Resident Surplus Lines Producers*: Removing the requirement that resident surplus lines producers file a bond with the commissioner will reduce administrative expenses by a minimal amount.

(Revised) *Renewal Licenses*: It is possible that the DOI will need to hire additional staff in FY 2010 to handle the shortened license renewal cycle. Any additional increase could be paid from additional revenues generated.

(Revised) *Commercial Filings*: This provision should have little, if any, impact on the DOI. It is possible that the Insurance Commissioner will receive requests for exemptions. The qualifying insurer must provide the documents to the Commissioner at the Commissioner's request, which may reduce by a minimal amount administrative costs associated with document retention at the DOI.

(Revised) *Unauthorized Alien Insurers*: The DOI will need to hire a 0.5 PATII to implement these provisions. Costs for 0.5 PATII are estimated at around \$26,000 per year, which includes fringe benefits and office equipment. The funds and resources required could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) funds that, otherwise, would be reverted; or (4) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. The DOI is funded through both state General Fund and dedicated fund monies.

For FY 2006, the DOI reverted almost \$240,000 in state General Fund revenue.

Annuity Recommendations and Predatory Insurance Practices and Property and Casualty Policy Amendments: The bill adds certain practices regarding annuity recommendations to consumers and failure to notify consumers of changes to certain policies as unfair and deceptive acts. The DOI must adopt a rule to establish a method for making determinations as to whether a purchase or an exchange is unsuitable for a consumer. The DOI Commissioner may conduct an investigation, pursue an enforcement action, and take other official action to ensure compliance. The Commissioner may consult with the Securities Commissioner and use the resources of the Securities Commissioner in making a final determination regarding any issue concerning compliance. If the Securities Commissioner is informed of a suspected violation, the Securities Commissioner must advise the DOI Commissioner. In addition, the bill provides that engaging in certain dishonest or predatory insurance practices in marketing or sales of insurance to members of the U.S. Armed Forces are unfair and deceptive acts and practices of insurance. The DOI is allowed to adopt rules to provide for these unfair and deceptive acts and practices of insurance.

The above provisions could add additional administrative expenses to the DOI and the Securities Commissioner within the Secretary of State's Office. However, these agencies should be able to implement these provisions within their existing budget levels.

(Revised) Health Care Management Demonstration Project: The demonstration project would involve designing a program that would offer Marion County Medicaid recipients the opportunity to receive all of their medical services from Wishard Hospital and the clinics operated by the Health and Hospital Corporation (HHC). The offer must be extended to a number of Medicaid recipients that is large enough to provide meaningful data to guide the establishment of a statewide program. The demonstration waiver group would receive health care services based on a specified Veterans' Administration model. The Corporation is further required to establish and implement a health care management program that applies to all Medicaid recipients in the state that is modeled on the U.S. Department of Veteran's Affairs Quality Enhancement Research Initiative. The cost of implementing such a statewide program is not known.

In FY 2004, Medicaid reported 151,419 total Medicaid enrollments for Marion County. Of the total, 66% were participating in Hoosier Healthwise Managed Care or Primary Care Case Management. The remaining 34% consisted of fee-for-service patients and Medicaid Select enrollment. The demographic composition of the Medicaid eligibles who would accept an offer to be assigned to the demonstration project is not specified by the bill, although the group must be large enough to obtain meaningful data. Administrative actions would determine if the demonstration population would consist of specified populations inclusive of pregnant women, TANF adults, children, the aged, or the disabled. The demonstration project would, similar to a managed care organization (MCO), require the waiver of the Medicaid recipient's freedom of choice of provider selection and could potentially require patient reassignment from existing MCOs or Medicaid Select providers.

Explanation of State Revenues: (Revised) *Summary of Increased Fees and Two-year License Renewal–*

	Increased Fee for Internal Audit and Product Filing Fee	Two-Year License Renewal	Transfer of Existing Filing Fees
<i>FY 2008</i>			
State General Fund	-	(\$1.18 M)	(\$739,500)
DOI Fund	\$2.8 M	\$1.18 M	\$739,500
<i>FY 2009</i>			
State General Fund	-	(\$1.9 M)	(\$739,500)
DOI Fund	\$2.8 M	\$1.9 M	\$739,500
<i>FY 2010</i>			
State General Fund	-	(\$3.1 M)	(\$739,500)
DOI Fund	\$1 M	\$4.3 M	\$739,500
The DOI is funded through both the state General Fund and the DOI Fund. For each year of the 2005-2007 biennium, the DOI received \$3.4 M from the state General Fund and \$2.3 M from the DOI fund.			

(Revised) *Increased Fee for Internal Audit and Product Filing Fee:* New revenue for the DOI fund will consist of increased fees for internal audits, which should total a little over \$1 M, and new revenue generated by the product filing fee, which should total an estimated \$1.8 M. Starting in FY 2010, the product filing fee will drop back to \$35 per filing, which will generate about \$630,000. (At this point, the two-year renewal revenue from agent licenses will increase.) These fees are currently deposited in the DOI Fund. They will continue to be deposited in this fund. The total increase in revenue to the DOI Fund from these increased fees is equal to \$2.8 M for each of FY2008 and FY2009. In FY 2010 and thereafter revenue will return to current levels.

(Revised) *Two-Year License Renewal:* The bill provides that insurance producer and limited lines producer license renewal fees are due every two years rather than every four years. The bill provides that the fees are deposited in the DOI Fund. Currently, renewal fees are deposited into the state General Fund. Revenue generated from new agent fees, which equals about \$1.7 M per year, would continue to be deposited in the state General Fund.

The impact of changing the renewal licenses from a 4-year to a 2-year is outlined below. These estimates are based on licensee information currently in the DOI database.

For FY 2008, the renewal license fees will generate an estimated \$1.18 M. This fee which is currently deposited in the state General Fund would be deposited in the DOI Fund under the bill. State General Fund revenue would be reduced by \$1.18 M.

For FY 2009, the renewal fees will generate an estimated \$1.9 M. This fee which is currently deposited in the state General Fund would be deposited in the DOI Fund under the bill. State General Fund revenue would be reduced by \$1.9 M.

For FY 2010, the renewal license fees will generate an estimated \$4.3 M to be deposited into the DOI Fund, of which, \$3.1 M would have otherwise been deposited in the state General Fund and \$1.2 M would be attributable to the change from a 4-year renewal requirement to a 2-year renewal.

For FY 2011, the renewal license fees will generate an estimated \$4.2 M to be deposited into the DOI Fund, of which, \$2.3 M would have otherwise been deposited in the state General Fund and \$1.9 M would be attributable to the change from a 4-year renewal requirement to a 2-year renewal.

	Resident Producer	Non-Resident Producer	Totals
FY 2008			
Agents (existing licenses that expire this fiscal year)	5,725	10,573	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$229,000	\$951,570	\$1,180,570
FY 2009			
Agents (existing licenses that expire this fiscal year)	11,247	16,206	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$449,880	\$1,458,540	\$1,908,420
FY 2010			
Agents up for 1 st 2-year renewal	17,775	26,586	
Agents up for 2 nd 2-year renewal	<u>5,725</u>	<u>10,573</u>	
Subtotal	23,500	37,159	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$940,000	\$3,344,310	\$4,284,310
FY 2011			
Agents up for 1 st 2-year renewal	8,989	15,337	
Agent up for 2 nd 2-year renewal	11,247	16,206	
Agents who last renewed between Jan-Jun 2007	<u>3,448</u>	<u>4,931</u>	
Subtotal	23,684	36,474	
	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$947,360	\$3,282,660	\$4,230,020

(Revised) *Transfer of Fee Revenue from the State General Fund to the DOI Fund - Filing Fees:* The bill deposits fees for certificates, articles of incorporation, utilization reviews, medical claims, company admissions and other filing fees into the DOI Insurance Fund rather than the state General Fund. For FY 2006, \$737,554 was deposited into the state General Fund from these fees. For FY2008, FY2009, and FY2010, these fees will generate an estimated \$739,500 per year. Revenue to the state General Fund will be reduced by \$739,500 per year.

(Revised) *Increased Fee for Internal Audit and Product Filing Fee:* The bill increases the internal audit fee for domestic and foreign insurers and HMOs from \$350 to \$1,000. It increases the internal audit fee of other entities from \$100 to \$250. Currently, the fees generate about \$700,000 per year. With the fee increases, additional revenue generated will equal an estimated \$1 M. This projection is based on the number of admitted companies, or 1,751. Of this total, 1,625 will experience an increase of \$650 (\$1,000 - \$350), which will generate \$1 M. The remaining 126 insurers will pay an additional \$150 (\$250 - \$100), which will generate \$18,900. The total new revenue is estimated at a little over \$1 M.

This new revenue would be deposited in the DOI Insurance Fund. Under existing law, this fee is deposited into the Insurance Fund. This provision will not effect the state General Fund.

The bill also provides that each policy, rider, or endorsement filed with the state constitutes an individual filing for purposes of the \$35 product filing fee. It imposes a \$1,000 cap per filing per insurer for product filing fees. The bill provides for the deposit of fees into the DOI Insurance Fund.

Each year the DOI receives approximately 10,900 Property and Casualty filings, 15% of which would qualify for the aggregate limit of \$1,000. This provision would generate \$1.6 M. ($10,900 * 0.15 = 1,635 * \$1,000 = \$1,635,000$).

The remaining Property and Casualty filers would equal 9,265. If this subtotal were added to Life and Annuity filings, which equaled 3,020 per year, and added to Accident and Health filings, which equaled 2,214, the total number of additional filers would equal 14,499. Assuming that 50% of these smaller filers will file one additional form, revenue generated would equal \$253,732.

Total new revenue from the Product Filing Fee would equal \$1,888,732. This new revenue would be deposited in the DOI Insurance Fund. Under existing law, this fee is deposited into the DOI Insurance Fund. This provision will not effect the state General Fund.

(Revised) *Insurance Education Scholarship Fund*: The bill authorizes the DOI Commissioner to issue certificates suitable for framing to insurance producers. The Commissioner may impose and collect a reasonable fee for the certificate. Fees must be deposited into the Insurance Education Scholarship Fund. The amount of revenue that will be generated from fees is indeterminable.

(Revised) *Unauthorized Alien Insurers*: The amount of additional renewal fees that the DOI would collect would depend on the number of U.S. branches that operate in the state.

Annuity Recommendations and Predatory Insurance Practices and Property and Casualty Policy Amendments: As a result of the hearing, violators may be ordered to cease and desist from the unfair or deceptive act or practice, and the DOI Commissioner may order the payment of a civil penalty of not more than \$25,000 for each act or violation. If the person knew or reasonably should have known that he or she was in violation, the penalty may be not more than \$50,000 for each act or violation. All civil penalties imposed and collected are deposited in the state General Fund.

(Revised) *Continuing Education*: Reducing the number of continuing education hours of credit that producers must complete could result in an increase in the number of applicants for license renewals which could increase license fee revenue by an indeterminable amount.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Securities Commissioner; OMPP, Family and Social Services Administration; SSACI; LSA; Secretary of State's Office; DOI.

Local Agencies Affected:

Information Sources: Jim Atterholt, Commissioner, DOI, 317-232-3520; Barb Lohman, Controller, DOI, 317-232-2405..

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